FEDERAL RESERVE

press release

For immediate release October 16, 1972

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on July 18, 1972.

Such records are made available approximately 90 days after the date of each meeting of the Committee and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based on the information that was available to the Committee at the time of the meeting, rather than on data as they may have been revised since then.

Attachment

CONFIDENTIAL (FR)

RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE

Meeting held on July 18, 1972

Current economic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services in the second quarter of 1972 had been much faster than the annual rates of between 5.5 and 6 per cent recorded in the two preceding quarters and that the rise in prices had slowed considerably from the first to the second quarter of the year. Staff projections suggested that growth in real GNP would remain rapid in the second half, although not so rapid as in the quarter just ended.

In June industrial production continued to expand, reflecting gains in output of business equipment and of materials, but the pace of the expansion--as in May--was well below that in the first 4 months of the year. Total nonfarm payroll employment was unchanged from May, following three sizable monthly increases. Although employment in manufacturing declined somewhat, the average factory workweek remained relatively high. The unemployment rate dropped to 5.5 per cent from 5.9 in May, but the decline was concentrated among younger workers and might have reflected in part seasonal adjustment problems at the end of the school year. Retail sales declined, according to the advance report, after having increased sharply in May; sales in the second quarter as a whole were substantially higher than in the first quarter.

Wholesale prices of farm and food products rose considerably further in June, and prices of industrial commodities continued upward at about the average rate of earlier months this year. The advance in hourly earnings of production workers on private nonfarm payrolls, which had slowed in May, remained small in June.

Staff projections of real GNP for the second half of 1972 were generally similar to those of 4 weeks earlier. However, the rate of growth anticipated was less rapid than that in the second quarter, which now appeared to have been substantially greater than had been expected. It was anticipated that the rise in disposable personal income in the second half would be somewhat faster than in the second quarter and that expansion in consumption expenditures would remain strong--with the recently enacted increase of 20 per cent in social security benefits contributing to the gains in the fourth quarter. It was still expected that State and local government purchases of goods and services would increase substantially; that business capital outlays would rise moderately and inventory investment appreciably; and that residential construction would level off.

In foreign exchange markets, speculation intensified in mid-June. The United Kingdom lost a substantial amount of reserves in supporting its exchange rate, and early on June 23 it announced that the rate for sterling would be allowed to float and that its exchange markets would be closed for 2 days. Uncertainty and speculation then focused on the dollar and led to the closing of official markets in all major countries--although in some European countries, not before central banks had acquired a substantial amount of dollars in the process of maintaining their currencies within the limits of the Smithsonian Agreement. When exchange markets were reopened around the end of June, controls on capital inflows into some countries were tighter. At the time of this meeting of the Committee, speculative pressures against the dollar had abated somewhat, but exchange rates for most major foreign currencies were at or close to their ceilings against the dollar. The rate for sterling had declined about 5 per cent from its level prevailing before it was allowed to float.

U.S. merchandise exports increased in May while imports changed little, and the trade deficit receded from the exceptionally large figure in April. The average deficit in the April-May period, however, was substantially greater than that in the first quarter of the year.

Since the last meeting of the Committee, interest rates on most short-term market securities had risen somewhat, partly in response to gradual firming in money market conditions. Rates on shorter-term Treasury bills were an exception, reflecting anticipations of demands for Treasury securities by those foreign official institutions that had been acquiring dollars; at 3.92 per cent on the day before this meeting, the market rate on 3-month bills was unchanged from 4 weeks earlier.

In markets for long-term securities, interest rates on corporate and State and local government bonds rose somewhat in the latter part of June but declined again in early July; at the time of this Committee meeting yields on long-term bonds generally were little changed from 4 weeks earlier. The combined volume of new publicly issued corporate and of State and local government bonds changed little from May to June; the volume appeared likely to expand in July.

Contract interest rates on conventional new-home mortgages and yields in the secondary market for Federally insured mortgages both were unchanged from May to June. Inflows of savings funds to nonbank thrift institutions increased somewhat in June, but the average rate of inflows in the second quarter of the year was well below the exceptional pace in the first quarter.

At commercial banks, real estate and consumer loans outstanding continued to expand rapidly in June, but business loans declined--after having expanded substantially throughout the first 5 months of the year--and banks reduced their holdings of securities other than those of the U.S. Government. Despite the measured decrease in business loans, part of which may have been attributable to seasonal adjustment problems, loan demand was reported to have remained basically strong. In late June most major banks raised their prime rates from 5 to 5-1/4 per cent.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) in June remained close to the relatively slow rate recorded in May. Sluggishness in June, however, may have reflected temporary effects of the speculation in foreign exchange markets and outflows of funds from the United States after midmonth, and weekly data suggested a sharp increase in the rate of expansion in early July. Growth in the more broadly defined money stock (M_1 plus commercial bank time and savings deposits other than large-denomination CD's, or M_2) remained substantial in June, as inflows of consumer-type time and savings deposits to banks continued at a relatively high rate. Expansion in the bank credit proxy--daily-average member bank deposits, adjusted to include funds from nondeposit sources--slowed sharply, reflecting a marked reduction in U.S. Government deposits.

System open market operations in the period since the June 19-20 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in the June-July period of between 4.5 and 8.5 per cent, while avoiding sharp day-to-day fluctuations and large cumulative changes in money market conditions. Since July 6, when Committee members voted to amend the current economic policy directive to take international developments into account, operations also had been conducted with a view to providing and absorbing reserves in ways that avoided significant declines in Treasury bill rates that might otherwise have resulted from heavy foreign official demands for bills. It appeared at present that RPD's would grow over the June-July period at a rate of about 8.5 per cent. The Federal funds rate rose to about 4-5/8 per cent from just under 4-1/2 per cent shortly before the preceding meeting. In the 4 weeks ending July 12 member bank borrowings averaged about $180 million, compared with about $115 million in the preceding 4 weeks.

The Committee agreed that the economic situation continued to call for moderate growth in the monetary aggregates over the months ahead, and it decided to seek growth in RPD's at an annual rate in a range of 3 to 7 per cent during the July-August period while continuing to avoid sharp fluctuations and large cumulative changes in money market conditions. The members also decided that account should be taken of the forthcoming Treasury financing, of developments in capital markets, and of international developments, and that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating significantly from the rates expected. As at other recent meetings, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if it appeared that the Committee's objectives and constraints were not being met satisfactorily.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real output of goods and services increased at a faster rate in the second quarter than in the two preceding quarters. In June the unemployment rate declined, but it was still substantial. Wholesale prices of farm and food products advanced appreciably further in June and the rise in prices of industrial commodities remained substantial. Recent data suggest moderation in the pace of advance in wage rates. In foreign exchange markets, following disturbances leading to a floating of the pound sterling, the dollar has come under pressure and the reserves of European central banks have increased sharply. In May, the excess of merchandise imports over exports remained large, though a little less than in April.

Growth in the narrowly defined money stock was relatively slow in May and June, but preliminary weekly data suggest a pickup in early July. Growth in the broadly defined money stock was more substantial as inflows of consumer-type time and savings deposits to banks remained strong. Expansion in the bank credit proxy slowed sharply in June as U.S. Government deposits declined markedly. In recent weeks, long-term interest rates have changed little; rates in short-term markets have advanced, except for those on shorter-maturity Treasury bills.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing, developments in capital markets, and international developments, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in monetary aggregates over the months ahead.

Votes for this action:
Messrs. Burns, Hayes, Brimmer,
Bucher, Daane, Eastburn, MacLaury,
Robertson, Sheehan, and Winn.
Votes against this action:
Mr. Coldwell.
Absent and not voting:
Mr. Mitchell.

Mr. Coldwell dissented from this action because in his judgment average growth in bank reserves within the specified range for July and August and the associated expansion in the money supply might build a base for excessive economic stimulation. He was concerned about the effects both on the domestic economic situation, in the context of heavy stimulation from fiscal policy, and on international financial problems.